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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, SEPTEMBER 5, 2000

JOINT PETITION OF

UNITED TELEPHONE-SOUTHEAST, INC.

CASE NO. PUC990160

and

CENTRAL TELEPHONE COMPANY OF VIRGINIA

For approval of Amendment to the  
Companies' Alternative Regulatory Plan

FINAL ORDER

On September 23, 1999, United Telephone-Southeast, Inc., and Central Telephone Company of Virginia (together, the "Companies") filed a Joint Petition requesting the Commission to amend the Companies' Alternative Regulatory Plan ("Plan") adopted by the Commission in its Final Order dated October 18, 1994, in Case No. PUC930036. The Companies' proposed Plan amendments are (1) in response to the Commission's March 12, 1999, Order in Case Nos. PUC990010 and PUC990011, and (2) to incorporate pertinent changes made in the Code of Virginia since the Companies' Plan was adopted. These latter changes were subsequently addressed in the Commission's Final Order in Case No. PUC970174 issued on November 29, 1999, and will not be further addressed in this case. Attached to the Joint Petition,

the Companies filed a copy of their proposed revisions to the Plan.

On April 27, 2000, the Commission entered an Order for Notice directing the Companies to publish notice of its proposed amendments to the Companies' Plan. The Order also provided an opportunity for interested parties to file written comments or requests for hearing on the proposed amendments on or before June 16, 2000.

On June 6, 2000, the Commission's Staff ("the Staff"), by counsel, filed a motion requesting that it be permitted to file comments on the proposed amendments and respond to any comments filed by interested parties. That motion was granted on June 7, 2000.

On June 16, 2000, AT&T Communications of Virginia, Inc. ("AT&T"), filed comments on the proposed amendments. On June 22, 2000, the Companies filed a joint motion for leave to file reply comments in response to the comments filed by AT&T and the Staff. That motion was granted on June 30, 2000.

The Staff filed its comments on the Companies' Plan on June 30, 2000. In its comments, the Staff detailed several concerns it had with the Companies' Plan and attached its own version of the Plan to its comments.

On July 10, 2000, the Companies requested an extension of time to file its reply comments stating that they needed

additional time in order to meet with the Staff in an attempt to resolve the issues in the Staff's comments. The Commission granted the Companies' motion on July 12, 2000, and extended the date for reply comments to July 28, 2000.

On July 28, 2000, the Companies filed reply comments to those filed by the Staff and AT&T. In its reply comments, the Companies stated that they met with the Staff and reached agreement on all issues presented in the Staff's comments. The Companies also stated that AT&T likewise agreed with the resolution of the issues. The Companies included in their comments the agreed upon Plan amendment provisions. The Commission has made a few minor administrative and typographical changes to the final version of the Plan which do not impact the substance of the agreed upon amendments.

NOW THE COMMISSION, having considered the proposed amendments, the Staff's comments, AT&T's comments, and the Companies' reply comments, is of the opinion and finds that the Companies' proposal to amend their Alternative Regulatory Plan should be approved consistent with the agreed upon amendments.

Accordingly, IT IS THEREFORE ORDERED THAT:

(1) The Companies' Joint Petition to amend their Alternative Regulatory Plan is hereby approved with the agreed upon amendments.

(2) A copy of the Companies' Amended Alternative Regulatory Plan is attached to this Order.

(3) There being nothing further to come before the Commission, the matter is dismissed.

ATTACHMENT 3.

ALTERNATIVE REGULATORY PLAN FOR  
CENTRAL TELEPHONE COMPANY OF VIRGINIA  
AND UNITED TELEPHONE-SOUTHEAST, INC.

A. Applicability of Plan.

1. Upon election of the companies, this Plan will apply to Central Telephone Company of Virginia and United Telephone-Southeast, Inc. ("the Companies") and will go into effect on January 1, 1995.

We refer to the Companies collectively; however, this does not preclude either Company from seeking singular treatment under the provisions of this Plan.

2. Nothing in this Plan shall be deemed to affect the ability or authority of any entity other than the Companies to offer any telecommunications service.

B. Changes to Plan.

1. Any change to this Plan may occur only after an appropriate proceeding is initiated and held under the provisions of § 56-235.5 D of the Code of Virginia.

2. Any such change approved by the Commission shall have prospective effect only.

C. Classification of Services.

1. Telecommunications services of the Companies will be classified into four categories called Basic Local Exchange Telephone Services ("BLETS"), Discretionary Services, Competitive Services, and Bundled Services, as defined below. The Companies' existing services will be distributed among these categories in accordance with Appendix A attached to the Plan, adopted pursuant to the October 18, 1994, Order in PUC930036.

2. Service classifications are defined as follows:

- a. "Competitive Services" are, pursuant to § 56-235.5 F of the Code of Virginia, telecommunications services for which competition or the potential for competition in the marketplace is or can be an effective regulator of the price of those services as determined by the Commission.
- b. "Discretionary Services" are telecommunications services which are optional, nonessential enhancements to BLETS, which may or may not be provided by suppliers other than the Companies,

but which do not conform to the definition of  
Competitive Services.

c. "Basic Local Exchange Telephone Services"  
("BLETS") are telecommunications services which  
are not Competitive or Discretionary and which,  
due to their nature or legal/regulatory  
restraints, only the Companies can provide, and  
other services the Commission determines to be  
BLETS.

d. "Bundled Services" are packages of services which  
include more than one of the classes of service  
defined in subdivisions C2a, C2b, and C2c above  
and offered at an aggregate price.

D. Classification of New Services and Reclassification of  
Existing Services.

1. Thirty days prior to offering a new service or  
reclassifying an existing service, the Companies shall notify,  
in writing, the Staff, the Attorney General, and all  
certificated interexchange carriers of the new or reclassified  
offering and shall provide a tariff and appropriate  
documentation to the Staff. The Commission may suspend the

proposed effective date if it finds that the documentation supporting the classification is insufficient.

- a. Simultaneous with such notification, the Companies shall designate the service category into which the service is classified.
- b. If the proposed service category is Competitive, notice must be given to all affected parties, and an opportunity for hearing must be provided in accordance with § 56-235.5 E of the Code of Virginia.
- c. Any interested party shall be afforded an opportunity, by timely petition to the Commission, to propose that the service be classified in a different category; however, the filing of such petition shall not result in the postponement of any new service offering unless the Commission, for good cause shown, orders otherwise.
- d. Any such proceeding to determine the proper classification of a service offering shall be completed within 90 days following the effective



date of the service offering, except that if the proposed classification is Competitive, the proceeding must be completed within 120 days.

The Commission, however, for good cause shown, may extend these time periods.

2. Any interested party may petition for the classification or reclassification of a Company service. Any such proceeding must be completed within 90 days unless the reclassification is either to or from the Competitive category, in which case it must be completed within 120 days, unless the Commission should extend these time periods for good cause shown. If the proposed category is Competitive, subdivision D1b above applies.

E. Tariff Requirements. Tariffs shall continue to be filed for all BLETS and Discretionary Services, Bundled Services packages containing BLETS and/or Discretionary Services, and for any Competitive Service that is also offered within the Companies' service territory, pursuant to a Virginia intrastate tariff, by another company that is certificated by this Commission. The prices of Competitive Services shall not be regulated by the Commission, except as

provided for in subsection M (Competitive Safeguards) of this Plan.

F. Price Changes for BLETs. Price changes for BLETs shall be governed by the following rules:

1. Price decreases. If the Companies wish to reduce the price for any BLETs service, they shall file a revised tariff with the Commission. Such tariff shall take effect in accordance with § 56-40 of the Code of Virginia.

2. Price increases.

a. No price increase (other than pursuant to subsection H of this Plan) will be allowed before January 1, 1998, for BLETs.

b. Beginning in the year 1998, price increases for BLETs will be allowed pursuant to the notification provisions of § 56-237.1 of the Code of Virginia and a showing by the Companies that any individual price increase will not exceed in percentage terms  $1/2$  the increase in the Gross Domestic Product Price Index (as described in subsection K of this Plan) for the preceding year. After this initial price increase, any

subsequent increase in prices for these services will be allowed pursuant to the notification provisions of § 56-237.1 of the Code of Virginia and shall not exceed in percentage terms 1/2 of the increase in the Gross Domestic Product Price Index since the last time the price of the service was increased. If a protest or objection to a price increase is filed by the lesser of 150 or 5.0% of the customers, the Commission shall, upon reasonable notice, conduct a public hearing concerning the lawfulness of the increase, pursuant to § 56-235.5 of the Code of Virginia.

- c. No service shall be subject to more than one price increase in any 12-month period.

3. Rate regrouping of exchanges. Nothing in this Plan shall be construed to prohibit rate regrouping of exchanges due to growth in access lines. This regrouping process will continue in order to avoid rate discrimination between similarly sized exchanges.

G. Price Changes for Discretionary Services. Changes to prices for Discretionary Services shall be governed by the following rules:

1. Price decreases. If the Companies wish to reduce the price of any Discretionary Service, they shall file a revised tariff with the Commission. Such tariff shall take effect in accordance with the requirements of § 56-40 of the Code of Virginia.

2. Price increases.

a. Price increases for Discretionary Services will be allowed after 30 days' notice to the Commission, 30 days' notice (by individual and solitary bill inserts or imprints) to customers, and a showing by the Companies that no individual price increase for a Discretionary Service will exceed the full increase in GDPPI, as defined in subsection K of this Plan, for the preceding year. If the Companies do not obtain a rate increase during the prior 12-month period, the increase may reflect a cumulative change in GDPPI since the last increase, but can be no more than

two times the change in GDPPI for the preceding year.

- b. No service shall be subject to more than one price increase in any 12-month period.

H. Revenue-Neutral Price Changes.

1. Nothing in this Plan shall be construed to prohibit the Companies from proposing changes in the price of any BLETS or Discretionary Services that do not result in a net increase in operating revenues. The notification provisions of § 56-237.1 of the Code of Virginia will be applied to such proposals, and if a protest or objection to the revenue-neutral restructuring is filed by the lesser of 150 or 5.0% of the customers, the Commission shall, upon reasonable notice, conduct a public hearing concerning the lawfulness of the restructuring, pursuant to § 56-235.5 of the Code of Virginia. The Commission shall approve such rate changes if it finds that they are in the public interest, or the Commission may refuse to approve the filing if it is not in the public interest or otherwise fails to comply with this Plan.

2. The Commission will require the Companies to show within the first two years following the implementation of the

price changes that the changes are, in fact, revenue neutral.

If they are not, the Commission may require a prospective adjustment in the affected prices to ensure revenue neutrality.

I. Individual-Case-Basis Pricing. Individual-Case-Basis (ICB) or custom-service-package contract pricing is allowed for BLETS and Discretionary Services when the Companies demonstrate that a competitive alternative exists for an individual customer, but where the service does not otherwise satisfy the requirements of subdivision C2a of this Plan. The conditions of subsection M (Competitive Safeguards) of this Plan shall be met. A copy of any ICB or custom-service-package contract shall be filed under proprietary protection with the Commission's Division of Communications with supporting data demonstrating that the rate is above total incremental cost of the service.

J. Pricing for Bundled Services. Pricing and changes to prices for Bundled Services shall be governed by the following rules:

1. Price floor. The aggregate price for all of the services in the package shall be equal to or higher than the sum of the tariff rate for any BLETS included in the package, plus

the incremental cost of any Discretionary Service(s), plus the price floor amount complying with subsections M2 and M3 for any Competitive Service(s) included in the package.

2. Price ceiling. The aggregate price for all of the services in the package may not exceed the sum of the tariff rate determined for any BLETS and/or Discretionary Service(s) included in the package, plus the rate appearing in the tariff or price list on file with the Commission for any Competitive Service(s) included in the package.

3. Price decreases. If the Companies wish to reduce the price of any Bundled Service, they shall file a revised tariff with the Commission. Such tariff shall take effect in accordance with the requirements of § 56-40 of the Code of Virginia.

4. Price increases.

a. Price increases for Bundled Services will be allowed after at least 30 days' notice to the Commission, at least 30 days' notice (by individual and solitary bill inserts or imprints) to customers, and a showing by the Companies that

the price increase complies with the price ceiling as set out in subsection J2.

- b. No Bundled Service provided by the Companies shall be subject to more than one price increase in any 12-month period.

K. Gross Domestic Product Price Index Standard. The Gross Domestic Product Price Index used to determine limits on price increases shall be the final estimate of the Chain-Weighted Gross Domestic Product - Price Index as prepared by the U.S. Department of Commerce and published in the Survey of Current Business, or its successor.

L. Financial Reporting. To provide the Commission with financial information for it to assure that the financial viability of the Companies has not been adversely affected in such a way as to jeopardize their ability to provide high quality service, the Companies shall file annually, unless otherwise indicated below, with the Commission their stockholder annual reports (if available) and SEC Form 10-K; the stockholders' annual reports and SEC Form 10-K of Sprint, Inc.; FCC/SCC Form M and the FCC Automated Reporting Management Information System Report 43-02 to be



filed only with the Division of Public Utility Accounting; a Virginia company, per books, rate of return statement that provides financial data on a total-Virginia, total-service basis, and on a Virginia-intrastate, total-service basis; a 13-month average capital structure statement; and a 13-month average rate base statement. The rate of return, capital structure, and rate base statements shall be filed quarterly for the first two years of the Plan, and annually thereafter. All of the above statements shall include the aggregate of all services, except for any service that is lawfully, preemptively deregulated by the FCC.

M. Competitive Safeguards. The following safeguards relating to fairness of competition will be imposed on the Companies:

1. There will be no increases in the prices for BLETS, Discretionary Services, and Bundled Services other than as outlined in subsections F, G, H, and J of this Plan.

2. Services and/or capabilities of a monopoly nature that are components of Competitive Services must be offered on an unbundled basis in the tariffs at the time the Commission

determines a service to be Competitive. When these services and/or capabilities are used by Competitive Services, revenues shall be attributed to competitive operations based on the tariff rates and quantities used.

Regarding new services, unbundling of all non-competitive components must be accomplished before the Companies can offer a Competitive Service related to the noncompetitive component(s). If the Companies do not plan to offer a related Competitive Service before the party requesting unbundling plans to offer its related service, the unbundling must be accomplished within a reasonable time after any reasonable request is made for such unbundling and with assurances the Companies can recover their related incremental costs.

If the Companies offer a Competitive Service using an unbundled noncompetitive component, they shall demonstrate that their price for the Competitive Service equals or exceeds the incremental costs of the competitive components of the service plus the tariffed rates of any noncompetitive components.

3. Revenues from Competitive Services in the aggregate must cover their incremental costs. The Companies shall file data annually to demonstrate this. Also, the price of an

individual Competitive Service must cover its incremental costs. The Companies shall maintain total incremental cost studies for each Competitive Service offered demonstrating that a service's price equals or exceeds its incremental costs. These studies shall be filed with the Division of Communications within 30 days of a complaint alleging that an individual service's revenues fail to cover its total incremental costs.

N. Service Quality. Service quality results shall be filed by the Companies on a quarterly basis, or as directed by the Staff.

1. These reports shall conform to service rules adopted by the Commission by Final Order of June 10, 1993, in Case No. PUC930009. These reports may be expanded to include results not contained in the present service reports.

2. The Companies will also file reports showing results related to services provided to interexchange carriers as follows:

- a. On-time performance;
- b. Outage duration; and
- c. Blocking below the tandem.

3. The Staff will analyze service results and take immediate action to resolve any service quality problems.

O. Filing of Other Information.

1. Upon the request of the Staff, the Companies will file such other information with respect to any services or practices as may be required of public service companies under current Virginia law, or any amendments thereto.

2. If the Companies fail to provide, timely and accurately, data required by the Plan, including answers to any Staff request for data or information necessary for the execution of this Plan, they shall be subject to a Rule to Show Cause hearing for such failure. The Commission will monitor closely all aspects of each Company's performance under the Plan.

P. Monitoring of Competitive Services. To assist the Commission in fulfilling the requirements of § 56-235.5 G of the Code of Virginia to monitor the competitiveness of Competitive Services, the Companies must file, on a proprietary basis, a quarterly schedule reporting units and revenue for Competitive Services (to be filed only with the Division of Economics and Finance). Also, the Companies

must file an annual price list for Competitive Services, excluding Yellow Pages (to be filed only with the Divisions of Communications and Economics and Finance).

- Q. Access Charges. Interexchange carriers' access charges are not included in the categories of services set out in this Plan for pricing purposes. Pricing for such services will be considered separately in accordance with procedures adopted in Case No. PUC870012, In re: Investigation of the appropriate methodology to determine intrastate access service costs, and as implemented in Case No. PUC880042, Ex Parte, In re: Investigation of pricing methodologies for intrastate access service. For all other purposes, access services will be included in the categories as shown in Appendix A attached to the Plan adopted pursuant to the October 18, 1994, Order in PUC930036.